



August 17, 2015

Technical Director  
Financial Accounting Standards Board  
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File Reference No. 2015-230

Dear Technical Director:

The Healthcare Financial Management Association's (HFMA's) Principles and Practices (P&P) Board appreciates this opportunity to comment on the Financial Accounting Standards Board's (FASB's) exposure draft of the proposed Accounting Standards Update *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*, that changes the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows.

HFMA is a professional organization of more than 40,000 individuals involved in various aspects of healthcare financial management. In 1975, HFMA founded the P&P Board, a special group of experts to serve as the primary advisory group in the areas of accounting principles and financial reporting practices to meet the unique characteristics of health service organizations.

### **General Comments**

In the exposure draft, the FASB states it is seeking to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The FASB's Not-for-Profit Advisory Committee (NAC) and other stakeholders indicated that existing standards for financial statements of not-for-profit entities (NFPs) are sound, but could be improved to provide better information to donors, creditors, and other users of financial statements. The FASB maintains that the proposed amendments are intended to address several issues about the current financial reporting for NFPs, which, among others, include the following:

1. Complexities about the use of the currently required three classes of net assets that focus on the absence or presence of donor-imposed restrictions and whether those restrictions are temporary or permanent. Deficiencies in the utility of information provided to donors, creditors, and others in assessing an entity's liquidity caused by potential misunderstandings and confusion about how restrictions or limits imposed by donors,

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- laws, contracts, and governing boards affect an entity's liquidity, classes of net assets, performance, and related terminology, particularly the term unrestricted net assets.
2. Inconsistencies in the reporting (or lack of reporting) of intermediate measures of operations in the statement of activities, including inconsistencies between that reporting and the reporting of operating cash flows in the statement of cash flows. Those inconsistencies cause difficulties in communicating and assessing an entity's financial performance.
  3. Inconsistencies in the type of information provided about expenses of the period—for example, some, but not all, NFPs provide information about operating expenses by both function and nature.
  4. Misunderstandings about and opportunities to enhance the utility of the statement of cash flows, particularly about the reporting of operating cash flows.

### P&P Board's response:

We will begin with overall comments and then will address specific FASB questions along with recommendations and comments for improving certain attributes of the ASU.

#### *Need for consistency in reporting models*

HFMA has long recommended that the FASB avoid differences between not-for-profit, for-profit, and governmental standards that cannot be justified by fundamental or environmental differences among the sectors. NFP healthcare organizations operate fundamentally differently than other NFP entities. Today, not-for-profit healthcare organizations use a financial reporting model that is based on the reporting model used by business entities. The demands of the current healthcare marketplace, driven in part by the Affordable Care Act, are spurring a new wave of acquisitions and affiliations among healthcare organizations. Facing pressure to reduce the cost of care, improve the coordination of care delivery, and assume financial risk for the health outcomes of patient populations, organizations are seeking partners who can help them add new capabilities, achieve economies of scale, enrich data on clinical outcomes, or widen access to services. The P&P Board believes that the interests of financial statement users will be best served by a single core financial reporting model to apply to all of the FASB's constituents – public business entities, private companies, and not-for-profits – with incremental differences tailored as necessary to the unique circumstances and characteristics of not-for-profits and private companies. As a result, the P&P Board is concerned that certain changes proposed in the exposure draft – specifically, those related to the definition of “operations,” consideration of a defined operating metric, and changes in cash flow classifications – would result in further divergence of the not-for-profit healthcare financial reporting model from the model used by healthcare business entities.

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Although the FASB has two projects on its agenda that are expected to address similar issues for business entities, the P&P Board is concerned that, because of the significant lag between the business entities and not-for-profit project timetables, the potential exists for not-for-profits and business entities to have financial reporting models based on different conceptual taxonomies, for reasons that are unrelated to any unique aspects of not-for-profit organizations or differences attributable to not-for-profit transactions. The P&P Board does not believe that reducing the comparability of fundamental concepts underpinning U.S. financial reporting based on the nature of the entity would be in the best interests of lenders, suppliers, and other users of financial statements to assess organizations' ability to pay their obligations, irrespective of whether the entities are business enterprises or not-for-profits. Additionally, in capital markets, widening the differences in reporting between not-for-profits and their business entity sector counterparts in health care increases complexity for investors in attempting to understand the differences and similarities among these entities regarding factors such as financial condition, business risks, and cash flow prospects.

In summary, the P&P Board recommends that the FASB move ahead with incremental proposed improvements in the not-for-profit reporting model that are not-for-profit specific (such as elimination of permanently restricted net asset classification, reporting of underwater endowments, and releases of restrictions on capital gifts) but suspend those matters that intersect with the projects for business entities (such as a prescribed operating/nonoperating distinction and changes to the cash flow method and classifications) until these matters can be deliberated for not-for-profit entities at the same time as for business entities. The P&P Board believes that the understandability of financial statements for investors, lenders, creditors and other financial statement users will be improved only if such changes are undertaken for all entities at the same time, as part of a unified effort. Only after the FASB has determined the fundamental changes it intends to make with respect to key concepts underlying financial reporting for business entities (if any) should it resume deliberation of similar issues for not-for-profit entities, in order to maintain consistency in the underlying frameworks.

*Importance of an NFP business reporting model*

The P&P Board agrees with the FASB that the objectives of financial reporting for most NFPs differ from those of business entities in significant ways that are described in Statement of Financial Accounting Concepts No. 4 (CON 4). However, the P&P Board observes that CON 4 also states that the objectives of financial reporting for business entities may be more appropriate for NFPs that finance their capital needs largely from the proceeds of debt issues and their operating needs largely from service charges rather than from private philanthropy or government grants, citing private not-for-profit hospitals as an example. So NFPs, within the scope of the AICPA Guide, "Health Care Entities," have implemented the original Statement of

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Financial Accounting Standards No. 117 (FAS 117). Applying FAS 117 in a manner consistent with the objectives of business enterprise financial reporting (and consistent with the reporting model historically followed) would enhance the uniformity and usefulness of financial reporting by those entities. As a result, NFP healthcare organizations (HCOs) that are primarily fee-supported use a modified form of FAS 117 that applies the following business reporting conventions: a classified balance sheet; marketable securities reported using ASC 320 concepts; a separate statement of operations; presentation of a net-income equivalent earnings measure (except for FAS 117's requirements related to presentation of discontinued operations); recycling of items of other comprehensive income (for example, use of cash flow hedge accounting for qualifying derivatives); and presentation of expenses by nature rather than function. Other NFP business-type entities voluntarily elected to apply FAS 117 in a similar fashion.

The P&P Board continues to strongly support the concept of a “not-for-profit business reporting model” which permits business-oriented NFPs to simultaneously report like an NFP and a business entity. The NFP business reporting model is arguably easier to understand by those who are familiar with business entity reporting. The P&P Board is concerned that the standalone not-for-profit financial reporting model's emphasis on donations as a significant source of resources is not helpful or useful for organizations whose principal source of operating revenue is fees for services.

As stated previously, the P&P Board believes it is important to consider changes to the overall U.S. financial reporting model for all entities at the same time. If the Board determines to finalize those changes for NFPs and business entities on different timetables, then the P&P Board believes that business-oriented NFP HCOs (and other NFPs that voluntarily apply a business reporting model) should be excluded from the scope of the NFP project and, instead, be considered under the projects for business entities. The P&P Board is concerned about the magnitude of the change that would be associated with moving such organizations from a business-reporting model to a non-business model that uses concepts not yet tried in U.S. financial reporting. In particular, the P&P Board has concerns about moving such organizations away from reporting a comprehensive measure of performance that is consistently applied and widely understood (that is, a net-income equivalent) to a new measure that is untried and unfamiliar.

### **HCO Specific Questions**

***Question 5:*** *Most business-oriented health care NFPs are required to present a classified balance sheet. Continuing care retirement communities (CCRCs) and other NFPs may choose to sequence their assets and liabilities according to their nearness to cash as an alternative to*

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*using a classified balance sheet. As a result of the proposed requirement to provide enhanced disclosures of information useful in assessing liquidity, would there no longer be a need to hold business-oriented health care NFPs to the more stringent standard for their balance sheets? If not, why?*

P&P Board response:

When FAS 117 implementation guidance was issued for business-oriented NFP HCOs in 1996, it was determined that those organizations (with the exception of CCRCs) should continue the industry's longstanding practice of providing classified balance sheets. Today, the P&P Board continues to believe that the existing requirements related to preparation of a classified balance sheet by business-oriented HCOs are appropriate and should be retained. Because most of the resources for these organizations are derived from operating similarly to a business entity, effective management of working capital (as reflected in a classified balance sheet) is essential to their business health. And because the classified balance sheet contributes greatly to financial statement users' understanding of changes in working capital and potential near term impact on liquidity, the P&P Board does not believe that a shift from industry-wide consistency to inconsistency would be helpful to users of financial statements. Furthermore, many NFP healthcare systems also include for-profit subsidiaries, so maintaining the classified balance sheet would continue to provide for consistency and efficiency in the financial statement consolidation process.

Neither the FAS 117 reporting model nor the proposal specifically address the reporting that should be used by other types of business-oriented NFPs that operate within industries that utilize specially-tailored financial reporting practices (for example, insurance entities or financial institutions). In those situations, the P&P Board believes those organizations should be guided by industry practices when determining whether to utilize a classified balance sheet.

***Question 11:*** *Do you agree that the addition of required intermediate measures of operations for all NFPs would make unnecessary the need for NFP business-oriented health care entities to also present their currently required performance indicator? Why or why not? (See paragraph BC99.)*

P&P Board response:

When FAS 117 was implemented, it was determined that NFP HCOs within the scope of the AICPA's Health Care Guide should continue to apply performance criteria historically used in the healthcare industry (i.e. net income) to the extent allowed under FAS 117, in order to preserve

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consistency within the industry to the greatest extent possible. As a result, a standardized net income equivalent measure has been reported by NFP HCOs for over 40 years (since 1972, when the first “Hospital Audit Guide” was issued).

In the current proposed ASU, the basis for the FASB’s decision to eliminate the performance indicator from U.S. GAAP and replace it with the new measure appears to be based on (a) a determination that consistency in reporting between business-oriented NFP HCOs and other nonprofit entities is more important than consistency with investor-owned counterparts; (b) a perception that a net income-based measure is not relevant; and (c) a conclusion that the proposed metric would be more useful because it focuses on operating activity.

The P&P Board does not share the view that consistency in reporting with other NFPs is more important. The P&P Board notes that in its “pure” form, the not-for-profit financial reporting model is driven in large part by concepts associated with contribution accounting. The P&P Board does not believe that application of the “pure” form of this model to business-oriented HCOs (or for that matter, to any NFP which receives little or a small percentage of support from contributions) enhances the uniformity and usefulness of those entities’ financial statements. The P&P Board is aware that some NFP HCOs that receive significant amounts of contributions or grant revenue have elected to apply the NFP HCO reporting model, even though they may not fall squarely within the definition of a business-oriented healthcare entity that obtains revenues from providing (or arranging for) healthcare services. Such entities often have a mix of activities that extend beyond providing healthcare services to include activities such as education and research. The P&P Board does not believe that precluding business-oriented NFP HCOs from using a business reporting model in order to foster comparability in reporting with those organizations (at the expense of consistency with investor-owned entities) is helpful or useful to users of financial reports. The P&P Board is not aware of other situations where the financial statements of NFP business-oriented HCOs within the scope of ASC 954 would likely be compared with the financial statements of other types of not-for-profits.

The P&P Board does not share the view that a net-income-based performance metric is irrelevant to users of NFP HCO financial statements. The P&P Board understands that frequently, NFP HCOs will have debt covenants based upon the performance indicator. But the P&P Board also views the performance indicator as having a conceptually deeper importance, in that it is a key comparable indicator of the “not-for-profit business reporting model” that serves as a bridge between not-for-profit and business entity reporting. Elimination of the performance indicator would result in dismantling this model, which would result in loss of use of business reporting concepts such as Other Comprehensive Income (OCI) reporting.

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The P&P Board does not share the view that reporting the new measure would provide better information to users than the existing measure. In the basis for those conclusions, the FASB notes that NFP business-oriented HCOs often elect to make an operating and non-operating distinction in their statements of operations, and observed that most find this distinction to be more useful for both their internal and external reporting. As discussed in the response to Question 6, the P&P Board agrees with the assessment that the operating/non-operating distinction is considered to be extremely useful today. However, it does not follow that the proposed new measure based on operating activity will therefore make statements more useful. This is because the FASB's proposal is not a standardization of the existing model; instead, it is a standardization using a conceptually different framework that would intermingle components of earnings and OCI and discontinued operations within new operating/non-operating categories in a manner not previously used in the U.S. financial reporting system. The P&P Board is concerned that the magnitude of change associated with moving HCOs from a measure that is well understood in the U.S. and consistently applied to a new measure based on concepts that have not previously been used in the U.S. would be detrimental to financial statement users. Standards for business-oriented NFP HCOs that diverge unnecessarily from investor-owned healthcare entities may contribute to misunderstanding among external users.

The P&P Board believes NFP HCOs should continue to apply the performance indicator, and that any potential changes to the operating metric should be considered in conjunction with contemplation of similar changes for business entities. The P&P Board has a similar view for other NFP business-oriented organizations that report a net-income-based earnings measure. Standards for business-oriented NFPs that diverge unnecessarily from those used by investor-owned entities may contribute to misunderstanding among external users. In addition, the proposed reporting model does not necessarily standardize because there are broad definitions of operating versus non-operating categories and the use of equity transfer reporting.

### **Other Questions of Interest to HCOs**

***Question 4:** Do you agree that providing information in notes to financial statements about financial assets and liabilities and limits on the use of those assets is an effective way to clearly communicate information useful in assessing an NFP's liquidity and how it manages liquidity without imposing undue costs? If not, why, and what alternative(s) would you suggest? (See paragraphs BC27– BC31.)*

#### P&P Board comment:

For business-oriented healthcare entities, the P&P Board believes that retention of the existing requirements for (a) preparation of a classified balance sheet coupled with (b) the exclusion from current assets of assets whose use is limited should provide sufficient information to evaluate

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liquidity, with or without set asides for long-term projects. This may be supplemented in footnote disclosures containing information about how the entity manages liquidity and quantitative and qualitative information about the liquidity of assets and near-term demands for cash to satisfy existing obligations.

For example, if the disclosures are focused primarily on liquidity of contribution-related areas such as pledges, donor-restricted net assets, and endowments, then the P&P Board believes that the final proposal should incorporate concepts similar to those under consideration in FASB's disclosure framework projects that would allow business-oriented HCOs and other NFPs that may have little or no contribution-related activity to include or exclude the disclosures based on management's evaluation of their materiality to users.

***Question 6:** Do you agree that requiring intermediate measures of operations would provide users of NFP financial statements with more relevant and comparable information for purposes of (a) assessing whether the activities of a period have drawn upon, or have contributed to, past or future periods and (b) understanding the relationship of resources used in operations of a period to resource inflows available to fund those operations? Do you also agree that classifying and aggregating information in that way would not require major system changes? If not, why? (See paragraphs BC38–BC47.)*

P&P Board comment:

Under the specially tailored version of FAS 117 established in ASC 954, business-oriented NFP HCOs today are required to report a standardized “intermediate measure of operations” called the performance indicator which is based on and corresponds closely with the net income measure reported by business entities. A net-income-based earnings measure has been consistently applied by these organizations for over 40 years and is well understood by US financial statement users.

In addition to the standardized performance indicator, business-oriented NFP HCOs have the ability to voluntarily report additional “intermediate measures.” This allows them to make operating/non-operating distinctions within earnings, just as nonpublic business entities do. During deliberations, the FASB and staff noted that business-oriented NFP HCOs often elect to make this distinction, and observed that most find this distinction to be useful for both their internal and external reporting. The P&P Board agrees with the assessment that this distinction is considered to be extremely useful, but notes that the classification principles today are based on general U.S. GAAP guidelines that allow management to subjectively define what is “operating” and “non-operating.”

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The P&P Board does not believe that it logically follows that if such a distinction is considered useful today, that the distinction would become even more useful if it were standardized in the manner recommended within the proposal. This is because the FASB's proposal is not a standardization of the existing model, but instead is a standardization using a conceptually different framework that would intermingle components of earnings and OCI and discontinued operations within new operating/non-operating categories in a manner not previously used in the U.S. financial reporting system. The P&P Board believes that there is no guarantee that imposition of such a FASB-defined operating measure that is not known or applied beyond the NFP sector would be considered similarly useful by NFP HCOs, particularly with regard to comparing themselves with their for-profit counterparts.

Because of its similarity to other business-oriented enterprises and the business orientation of HCOs, the P&P Board continues to endorse using the performance indicator as the standardized metric to be reported by those organizations. If the FASB reconsiders the use of net income reporting by U.S. business entities along with the need for reporting a standardized operating metric, the P&P Board believes that reconsideration of these issues for business-oriented NFPs should be undertaken as part of that effort.

***Question 12:*** *Do you think the flexibility currently allowed by GAAP to present a statement of activities as either a single statement or two articulating statements and to use either a single-column or a multicolumn format should be retained or narrowed? If narrowed, why and in what ways?*

P&P Board comment:

In 1996, AcSEC (now known as FinREC) imposed a specific requirement on business-oriented NFP HCOs to continue the industry's longstanding practice of providing a separate statement of operations that reports a performance measure. (In practice, this involves using a single-column presentation.) In light of that long-standing consistent practice, coupled with the expectation that "core" ASC 954 financial information reporters will have relatively little or no contribution income, the P&P Board believes that the requirement to use a single-column presentation with a separate statement of operations that reports a performance measure should carry forward into the new model. The P&P Board believes that for HCOs the single column presentation lends itself to comparison with the prior year's activity and may be easier for users to understand.

***Question 13:*** *Do you agree that reporting operating expenses by both their function and nature together with an analysis of all expenses (other than netted investment expenses) provides relevant and useful information in assessing how an NFP uses its resources and, thus, should be required? Why or why not? (See paragraphs BC87–BC93.)*

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P&P Board comment:

The P&P Board notes that a request by FinREC in 2011 to the FASB regarding this topic was directed towards improving financial reporting for organizations with a significant amount of fundraising activity. By definition, the business-oriented NFP HCOs that constitute the core of ASC 954 reporters have limited (or no) fundraising activity and typically operate a single program (providing or arranging healthcare services). Consistent with their for-profit counterparts, those HCOs generally report operating expenses by nature. The P&P Board finds that many HCOs have treated the historical requirement to provide information about expenses “by function” as a compliance exercise, and that the disclosure is not regarded as particularly relevant or useful to users of their financial statements. The P&P Board recommends that the FASB incorporate concepts similar to those under consideration in its disclosure framework projects that would allow HCOs and other NFPs that utilize a business reporting model to include or exclude the disclosure based on management’s evaluation of its materiality to users.

***Question 14:** Do you agree that requiring investment income to be reported net of external and direct internal investment expenses will increase comparability and avoid imposing undue costs to obtain information about all investment fees (for example, embedded fees of hedge funds, mutual funds, and funds of funds)? If not, why? (See paragraph BC100.)*

P&P Board comment:

The P&P Board notes that the FinREC request for the FASB to reconsider the requirements related to reporting investment returns and related expenses was on behalf of its Not-for-Profit Expert Panel. Those requirements are not discussed in the Health Care Guide, which focuses on matters that are common or prevalent for business-oriented HCOs. The P&P Board finds that investment-related expenses are typically not significant for an ASC 954 HCO and are not deemed to be relevant to financial statement users. Accordingly, we agree that presenting investment returns net of external and direct internal investment expenses provides the most efficient, cost-effective approach to presenting such information to financial statement users.

The P&P Board observes, however, that because business-oriented HCOs apply a FAS 115 model in classifying marketable securities and reporting investment return, the proposed requirement to present all investment return in a single line item, net of expenses, is a concern. Although most classify marketable securities as trading rather than available for sale, there is concern that in concept, the requirement precludes the ability to apply the FAS 115 model that is associated with business-type reporting.

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**Question 15:** *Do you agree that the disclosure of the amount of all investment expenses is unnecessary but that disclosure of internal salaries and benefits that are netted against investment return is of sufficient relevance, not too costly to obtain, and thus should be required? Why or why not? (See paragraph BC101.)*

P&P Board comment:

The P&P Board finds that investment-related expenses are typically not significant for an ASC 954 HCO and are not deemed to be relevant to financial statement users. Most financial statement users are primarily concerned with the overall net investment return. Accordingly, the P&P Board believes the disclosure of all investment expenses, including internal salaries and benefits, netted against investment return is not of sufficient relevance to require disclosure. The P&P Board observes, however, that because business-oriented HCOs apply a FAS 115 model in classifying marketable securities and reporting investment return, the proposed requirement to present all investment return in a single line item, net of expenses, is a concern. Although most classify marketable securities as trading rather than available for sale, there was concern that in concept, the requirement precludes the ability to apply the FAS 115 model that is associated with business-type reporting.

**Question 16:** *Do you agree that interest expense, whether incurred on short-term or long-term borrowing, and fees and related expenses incurred for access to lines of credit and similar cash management and treasury activities are not directed at carrying out an NFP's purposes and, thus, should not be classified as operating activities? If not, why? (See paragraphs BC59–BC60.)*

P&P Board comment:

Currently, management decides whether to classify interest costs as operating or non-operating; in business-oriented NFP HCOs, interest often is considered an integral part of operating activity. A classification model that would impose a requirement on NFPs to report these as non-operating is likely to cause confusion among preparers, users, and governing board members, unless the change is made as part of a unified effort where all U.S. entities are changing to such a model at the same time.

**Question 17:** *Do you agree with the following implementation guidance:*

a. *Equity transfers between NFPs that are under common control and are eliminated in a parent entity's consolidated financial statements and equity transactions between financially interrelated entities should be presented within operating activities unless they are not available for current-period use in carrying out the purpose for the reporting entity's existence? If not, why? (See paragraph BC62(a).)*

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P&P Board comment:

The P&P Board disagrees with the proposed implementation guidance. The proposed treatment of equity transfers illustrates the radical nature of the conceptual shift in reporting that would result from the proposed new framework. Equity transfers were intended to be the not-for-profit counterpart of certain capital transactions that occur between for-profit affiliates. According to the ASC glossary, “Equity transfers are similar to ownership transactions between a for-profit parent and its owned subsidiary (for example, additional paid-in capital or dividends).” The P&P Board believes that applying the mission and availability dimensions in the manner discussed in BC 62(a), which would result in reporting these transfers as items of operating income or expense, results in reporting that is not representational and is incompatible with the capital nature of the transactions. Furthermore, it should be noted that many health systems present obligated group information as supplementary other financial information with their consolidated financial statements. In many situations, the bond covenants for the obligated group are based on the performance indicator, which excludes equity transfers under current guidance. Additionally, amounts are often to other related entities outside the obligated group. Consequently, the proposed guidance presentation of such transfers as an operating expense could significantly impact debt covenants in certain obligated group situations. Thus, the P&P Board believes that the proposed treatment of equity transfers is a compelling point for excluding entities that apply a business-reporting model from the proposal, if the operating metric aspects of the proposal continue to be deliberated apart from similar discussions for business entities.

**Statement of Cash Flows, Including Financial Performance**

**Question 18:** *Do you agree that the direct method of presenting operating cash flows is more understandable and useful than the indirect method? Do you also agree that the expected benefits of presenting operating cash flows in that way would justify the one-time and ongoing costs that may be incurred to implement that method of reporting? If not, please explain why and suggest an alternative that might increase the benefits or reduce any operational concerns or costs. (See paragraphs BC75–BC80.)*

**Question 19:** *Does the indirect method’s reconciliation of cash flows from operations to the total change in net assets provide any particular type of necessary information that would be lost if, as proposed, that method is no longer required. If so, please identify the potentially omitted information and explain why it is useful and whether it should be provided through disclosure rather than requiring use of the indirect method. If you suggest that requiring the indirect method is necessary, would you require that the amount for cash flows from operations be reconciled to the amount of the (a) change in net assets, (b) change in net assets without donor restrictions, or (c) proposed intermediate measure of operations before or after transfers? Why? (See paragraphs BC75–BC80.)*

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P&P Board comment on both questions:

We recommend that overarching changes to the statement of cash flows for topics not unique to NFPs be deliberated concurrently along with for-profit entities. In order to avoid divergence of practices, we recommend the direct method of presenting operating cash flow not be required, but instead that the FASB continue providing an option for NFPs to use the indirect method. This option promotes understandability and consistency to users, as the reconciliation to the change in net assets is a relevant metric to many NFPs and their board members, who many times operate in a for-profit environment.

In particular, the P&P Board believes the indirect method of presenting changes in cash flows should be allowed as an option for business-oriented NFP entities. Under current guidance, EBITDA [a common measure employed by analysts] can be compared to Cash Flow from Operations in the Statement of Changes in Cash Flow. Presentation of the working capital changes and other sources and uses of cash are readily identifiable and highlight the difference between EBITDA and cash flow from operations. The example Statement of Changes in Cash provided in the implementation guidance does not support evaluation of working capital management, which is critical to the health of a business entity

***Question 20:** Do you agree that although operating activities is defined differently for the statement of cash flows than for the statement of activities, more closely aligning line items presented in the statement of cash flows with the proposed operating classification for the statement of activities will increase understandability even though that reporting would be somewhat different from current requirements for business entities? If you believe that operating items in the two financial statements would not be sufficiently aligned, please indicate how their alignment might be further improved. (See paragraphs BC81–BC86.)*

P&P Board comment:

A foundational principle of the FASB proposal is to segregate activities associated with an entity's investing and financing activities and keep them outside of "operations." The P&P Board finds that NFPs engage in fundraising activities to finance acquisition of long-lived assets and for other capital needs as an alternative to traditional debt financing. Thus, "capital campaigns" are a special method of financing that is available only to not-for-profit entities, in the same way that equity financing is a special method of financing that is available only to for-profit entities. The fact that capital fundraising is unique to not-for-profit entities should not cause the financing nature of the activity to be placed unnecessarily into an operating category, when in fact it could make more sense (and be consistent with the FASB's goal) to continue to view such contribution (and release of restriction) as a financing activity. Doing so would also go a long way towards resolving the inconsistency in the proposed model.

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Proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954): Presentation of Financial Statements of Not-for-Profit Entities*

File Reference No. 2015-230

August 17, 2015

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As previously mentioned, we recommend that overarching changes to the statement of cash flows for topics not unique to NFPs be deliberated concurrently with for-profit entities. To require classification changes for only NFPs would result in confusion for financial statement users, such as investors, lenders, and board members, many of whom operate in a for-profit environment. Therefore, we recommend that any changes to operating, investing, or financing cash flow classifications, at this time be limited to items unique to NFPs.

Thank you for the opportunity to comment. We are always ready to provide additional comments, or meet with you or members of your board to discuss this matter further. If we can provide additional material or perspective on this issue, please contact Richard Gundling, Vice President in HFMA's Washington, DC, office, at (202) 296-2920.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Conner", with a long horizontal flourish extending to the right.

Brian Conner, CPA  
P&P Board Chair